

AGENDA



Recommendation for Council Action

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| Austin City Council | Item ID | 73168 | Agenda Number | 11. |
| Meeting Date: | 8/31/2017 | | Department: | Treasury |
| Subject | | | | |
| <p>Approve an ordinance authorizing the issuance of Combined Utility Systems Taxable Interim Financing Notes in a maximum principal amount at any one time outstanding of \$75,000,000 to provide low interest rates on interim financing on utility projects; and authorize and approve the execution of all related agreements, including a Dealer Agreement with Goldman, Sachs & Co., an Issuing and Paying Agent Agreement with U.S. Bank N.A., a Revolving Credit Agreement, a note Purchase Agreement, a Fee Letter, and a Note Paying Agent Agreement all with JPMorgan Chase Bank, National Association related to the City's Combined Utility Systems Program Notes, comprised of a Commercial Paper Sub-Series and a Direct Purchase Sub-Series, and approve and authorize all related documents and fees.</p> | | | | |
| Amount and Source of Funding | | | | |
| <p>Funding in the amount of \$612,500 anticipated for the Letter of Credit fee and one-time costs of issuance was included in the Fiscal Year 2017-18 Proposed Operating Budget of Austin Energy.</p> | | | | |
| Fiscal Note | | | | |
| <p>There is no unanticipated fiscal impact. A fiscal note is not required</p> | | | | |
| Purchasing Language: | | | | |
| Prior Council Action: | <p>On May 13, 1998 Council approved the establishment of a \$60 million taxable Commercial Paper program and the related Letter of Credit with Landesbank Hessen-Thüringen Girozentrale (the "Bank"). On June 29, 2000, Council approved an increase in the taxable program from \$60 million to \$160 million and the related increase in the Letter of Credit with the Bank. The Letter of Credit was reduced from \$160 million to \$50 million on April 1, 2003. On August 28, 2003, September 30, 2004, and June 23, 2005 the Council approved extensions to the Letter of Credit Reimbursement Agreement between the City of Austin and the Bank. On June 23, 2011 Council approved a new Letter of Credit between the City and JPMorgan. On August 28, 2014 Council approved a new Letter of Credit between the City and Citibank.</p> | | | |
| For More Information: | Art Alfaro, Treasurer, 974-7882 | | | |
| Council Committee, Boards and Commission Action: | | | | |
| MBE / WBE: | | | | |
| Related Items: | | | | |
| Additional Backup Information | | | | |

The City's taxable commercial paper program was established in 1998. The commercial paper program allows the City to issue short term debt for qualifying Capital Improvement Program projects to minimize borrowing costs. The commercial paper is refinanced into long term debt as the capacity nears the maximum levels established by council. The taxable commercial paper program provides lower borrowing costs, eliminates the need for an arbitrage calculation and allows greater flexibility for the utility systems in managing cash needs. At various times during the life of the taxable commercial paper program, when market conditions are favorable, council is asked to issue long-term refunding bonds to retire all or a portion of the outstanding commercial paper notes. A necessary component of the commercial paper program has been a Letter of Credit (LOC). The LOC served two functions: first, to provide liquidity for the commercial paper securities in the event there are no buyers in the market for the City's commercial paper, and secondly, as a guarantor for the commercial paper should the City be unable to make debt service payments on the commercial paper. The authority to issue taxable commercial paper notes currently is capped at \$50 million.

The current taxable commercial paper program is used to finance projects with a private use (e.g., chillers). The current Letter of Credit Reimbursement Agreement supporting the program was approved by Council on August 28, 2014, with Citibank and has an expiration date of October 15, 2017. It totals \$53,698,631 (\$50,000,000 in principal and \$3,698,631 in interest).

This council request, if approved, will allow the City to replace the expiring LOC and Reimbursement Agreement in anticipation of the October 15 expiration and increase the taxable commercial paper program from \$50,000,000 to \$75,000,000. In order to take advantage of the lower borrowing costs associated with commercial paper versus the borrowing costs associated with long-term debt, and to reduce the frequency with which the utilities must issue long-term revenue bonds to refund short-term commercial paper issuances, the program is being increased by \$25,000,000 to a total of \$75,000,000 in outstanding principal.

12 banks were solicited and six banks responded. Bids were submitted for one year, two year, three, four, and five year terms and it is staff's recommendation that the City accept the bid submitted by JPMorgan Chase Bank, National Association (JPMorgan) for a three year term in order to realize cost savings for the next three years.

The JPMorgan bid provides that the LOC would be replaced with a line of credit (line of credit) issued under a Revolving Credit Agreement. The line of credit would provide liquidity in the event maturing commercial paper could not be remarketed by the commercial paper dealer. The JPMorgan bid also provides that as a component of the program, JPMorgan would directly purchase notes from the City. Commercial paper notes would have a maximum maturity of 270 days; direct purchase notes would have a maximum maturity of 364 days.

This council request, if approved, will allow the City to replace the expiring LOC with the line of credit issued by JPMorgan and authorize the direct sale of notes to JPMorgan. If council approves, the City will enter into a Revolving Credit Agreement with JPMorgan in an amount equal to outstanding principal of \$75,000,000, plus the required interest component. If council approves, the City also will enter into a Note Purchase Agreement with JPMorgan, in which the City would agree to sell to JPMorgan, and JPMorgan would agree to purchase from the City, no less than \$750,000 in direct purchase notes. The facility fee rate for the line of credit is proposed at 25 basis points for the entire program, which is lower than the current fee rates of 28 basis points for the LOC supporting the program. With this lower fee, and the increased program amount annual costs will increase by approximately \$155,000 in Fiscal Year 2018, Fiscal Year 2019 and Fiscal Year 2020.

In addition to the ongoing fees, there will be certain one-time costs associated with execution of this transaction. The estimated total for these fees is \$250,000 and will be paid to the following entities acting in the capacity noted:

Chapman and Cutler —Bank Counsel
McCall, Parkhurst & Horton L.L.P.—City Bond Counsel
Fulbright & Jaworski—City Disclosure Counsel
PFM Financial Advisors, L.L.C.—Financial Advisor
Fitch—Rating Agency
Moody's—Rating Agency
Standard & Poor's—Rating Agency
State of Texas Attorney General

